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States Gird to Push Frontier Opened by Offshore Oil Law

Outer Shelf May Be Next for Exploitation as Titles Are Cleared—Drilling to Start Soon for Minerals Beneath the Gulf

This is the first of three articles analyzing the offshore oil issue and the problems and prospects raised by it.

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Special to THE NEW YORK TIMES.

State officials and oil executives in states bordering the Gulf of Mexico are looking to a new frontier for exploration and development. Since President Eisenhower, on May 22, signed the Submerged Lands Act, restoring the states' title to offshore lands within their historic boundaries, public officials have started making ready to issue new leases and companies have begun assembling crews and equipment for oil operations offshore.

The new frontier was partly opened by the President's action, but it will be opened much wider if legislation pending in Congress is enacted to facilitate the development of submerged Federal lands even beyond the states' boundaries. These boundaries run to the three-mile limit except for Texas and Florida, where they go nearly ten and a half miles on the Continental Shelf of the Gulf, under the terms

This shelf is an under-water extension of the oil-rich coastal plain of the Gulf States. Its distance varies up to 150 miles from shore and to a depth of 600 feet, where the bottom drops away rapidly to oceanic spaces. By far, the greater part of its area lies in the outer shelf, where Federal jurisdiction is still recognized.

How large the offshore oil reserves may prove to be, and how soon their development can get under way on a large scale, are speculative questions on which there have been differences of opinion among experts. Estimates of their commercial value have ranged from zero to $300,000,000,000.

The final answer can come only from the drill that is pressed under ground to tell whether a producing well exists. Yet there seems to be a balance of thought favor-

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ing the probable existence of large underwater deposits of oil, gas, sulphur and other minerals, but so difficult, dangerous and costly to extract that it may take years to achieve profitable operations.

According to a recent estimate by the National Petroleum Council, until the Gulf has been widely explored and developed, the cost of producing oil there will be at least twice the cost inland. The council cautioned that it would probably be five years before this cost could be decreased and production increased to a substantial degree.

Oil activity was gradually getting under way in shallow water in the Gulf under state leases when it was drastically curtailed by the United States Supreme Court in its California decision of 1947 and its Texas-Louisiana decision of 1950. Texas stands first among the states in oil production, California second and Louisiana third. The court ruled the Federal Government ment had paramount rights to the off-shore lands — clouding the states' title, but also held that Congress had power to transfer title to the states.

The oil industry is said in industry circles to have invested $260,000,000 in offshore operations, from which it has received only $50,000,000 in return. Almost all the producing wells are concentrated off the Louisiana coast, mostly within the three-mile limit, though some are more than twenty-five miles out. The present equipment is limited to drilling in about sixty feet of water.

Louisiana Lists 233 Wells

According to the State Conservation Department of Louisiana, 233 wells have been drilled in the state's offshore area, resulting in twenty-seven producing oil and gas fields. Sixteen wells have been drilled off Texas at a reported average cost of $2,600,000, considering total investments in the area, and all but one have turned out to be worthless.

Now that activity can be resumed under Congress' sanction, Texas officials expect new drilling to start next year on a limited scale, but to increase gradually after that.

Gov. Allan Shivers, a Democrat who supported General Eisenhower in last year's election, told this writer in Austin last week that he expected increased activity but no mad rush.

"It's too expensive an operation," he said, "and how much they'll find is anybody's guess."

But the Governor and his oil experts believe that vast oil reserves lie under the Gulf and that they can eventually be extract whatever extent the oil is brought forth, he said, education in Texas will benefit proportionately, since the revenues received from state-owned land go into Texas' permanent school fund.

Bascom Giles, the Texas Land Commissioner, who has charge of leasing the state's public lands, reported that as of Aug. 31, 1952, a total of $8,960,078.10 had been deposited to the school fund from Gulf leases.

Mr. Giles said he had received about twenty-five inquiries as to when new leases would be available. He expects to set up a submerged lands division in his office by Sept. 1 and to resume offshore leasing about Dec. 1.

He did not look for any substantial amount of new drilling before next year, but predicted growing activity during the coming two years as companies acquired leases and expanded exploratory work.

W. J. Murray Jr., a petroleum engineer and member of the Texas Railroad Commission, which regulates oil production in the state, said it was "not unreasonable" to estimate underwater oil reserves in the Gulf at 13,000,000,000 barrels, or more than one-third the present proved reserves in the United States.

But he said only a limited number of specially efficient fields could produce economically at present prices and operating costs. For large-scale production, he added, cheaper and safer techniques will be needed, such as were developed to conquer difficult problems in west Texas and the submerged bays and marshes along the Gulf.

Really big offshore development, he declared, might wait until some future time when oil was scarce and prices high, increasing the inducement to take the financial and hurricane risks inherent in Gulf operations.

Louisiana to Fix Policy

In Baton Rouge, La., C. J. Bonnecarrere, secretary of the State Mineral Board, which handles all leasing in Louisiana, said the board would meet this month to discuss its policy and to act on inquiries that had been received.

According to a report by the state's Attorney General, Fred S. LeBlanc, before offshore oil activity in the state was curtailed in 1950, Louisiana had received more than $28,000,000 from such mineral leases and had used this money to retire state bonds and for highway construction and other needs.

Severance taxes collected on oil as it is extracted in Louisiana go to state education funds, and this year they are expected to exceed $66,000,000. Of this revenue, the part from offshore production is now comparatively small but is expected to increase substantially as coastal work expands.

At Tallahassee, Fla., the state geologist, Herman Gunter, said that oil companies had been reluctant to prospect submerged areas along the Gulf coast of Flor- a legal cloud. Now, he reported, they can be expected to start explorations. He added that the possibility of finding oil offshore was "very good."

Florida has leased 9,000,000 acres of offshore land but has received only $700,000 from these leases in the last seven years. One-fourth of this money went to education and the rest to general state funds. State income from present leases is expected to double, and 1,000,000 more offshore acres are available for leasing.

Correspondents in Mississippi and Alabama reported comparatively little interest there in the offshore situation at present, though people in both states hope to share eventually in such development.

Throughout the Gulf, more than twenty oil companies have taken part in this coastal activity, including most of the major ones and some smaller ones, though small is an extremely relative term in a business that calls for making big investments and taking big risks and big losses even while promising big rewards to the winners.

Offshore work grew out of the wildcatting of oil prospectors in the early Nineteen Thirties in the swamps, marshes, bays and inlets along the Gulf coast, particularly in the Mississippi River delta of Louisiana. New techniques developed there, including the submergible drilling barge, were adapted to offshore operations. Later, platforms were built over the water on piles to overcome the risks from hurricane weather and tidal waves.

The first oil field found was the Creole field, discovered in 1938 in nine feet of water one mile out in the open Gulf off the Louisiana shore.

Oil executives interviewed in Houston and New Orleans are optimistic in a restrained way. They indicated that they intended to adopt a cautious attitude and proceed slowly in further exploratory and development work.

Spokesmen for the Shell Company appeared enthusiastic over opportunities off the Louisiana coast, but, like others, they stressed the costs and difficulties and refrained from predicting anything in the nature of an immediate oil rush or boom. They expect much increased activity as soon as the federal and state governments start leasing.

The industry's activity now in gathering crews and equipment together, it was said, reflects a belief that the states probably will start putting up new leases by the end of the year, so that the companies can starting moving early next year.

A representative of the California Company, a subsidiary of the Standard Oil Company of California and a large offshore operator, said it had had a fleet of boats with special equipment operating in the Gulf but had put them in "mothballs" after the Supreme Court's 1950 decision.

The company now expects to do some more drilling in two producing fields it has within the Louisiana three-mile limit. If the pending bill opens up the Federal lands on the outer shelf, it will seek additional leases there and try to figure out new techniques to make deep-water operations profitable.

The California concern is assembling steel for overwater platforms and getting a special staff ready, but does not expect any new activity for several months.

Experts of the Humble Oil Company, the world's largest crude oil producer and a subsidiary of the Standard Oil Company of New Jersey, thought the best offshore prospects were in the Federal lands beyond the Texas and Louisiana borders. Therefore they did not expect important developments until a law was enacted to provide for Federal leases beyond the state boundaries and to apportion police and taxing powers on the outer shelf and conservation authority between Federal and state governments.

Officials of the Continental Oil Company indicated that they were likely to engage in limited, rather than widespread, operations in the immediate future. They stressed not only the cost of underwater work but also the length of time needed to set up overwater platforms and other equipment, to establish mainland bases and water transportation between them and the offshore installations, and to solve all the engineering problems.

If they decided tomorrow to start an exploratory program, they said, it would take six months to a year to get it started.